

Before the
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Periodic Reporting
(Proposal Two)

Docket No. RM2022-8

MOTION OF THE PUBLIC REPRESENTATIVE
FOR ISSUANCE OF INFORMATION REQUEST

(August 4, 2022)

Pursuant to 39 CFR §§ 3010.160(a) and 3010.170(e), the Public Representative respectfully requests that the Chairman issue an Information Request to obtain additional clarifying information from the United States Postal Service (Postal Service) concerning the proposed changes to analytical principals relating to periodic reports (to “update and improve the calculation of variabilities for postmaster costs”), referred to as Proposal Two, filed on July 7, 2022,¹ and following up on the responses provided to the Chairman’s Information Request No. 1, filed on July 15, 2022.² See Petition at 1. The proposed questions seek information that will allow participants to provide more constructive comments and evaluate whether the proposal meets the applicable legal and regulatory requirements. This information will also contribute to a better understanding of how the Postal Service has interpreted Commission rules and allow the Commission to make a fully informed, reasoned determination on whether Proposal Two meets applicable legal and regulatory requirements, including 39 U.S.C. § 3652(e)(2) and 39 CFR part 3050. Accordingly, the Public Representative requests that the Chairman issue the following questions to help participants better understand the Postal Service’s proposal.

¹ Petition of the USPS for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Two), July 7, 2022 (Petition). The Petition was accompanied by a study supporting its proposal. See Michael D. Bradley, *Calculating Variabilities for Postmaster Costs**, July 7, 2022 (Bradley Report).

² Responses of The United States Postal Service to Questions 1-5 of Chairman’s Information Request No. 1, July 22, 2022 (Response to CHIR No. 1).

Proposed Question(s)

1. The Bradley Report provides equations for marginal cost and overall variability. Bradley Report at 12, 13. Please provide a thorough proof detailing the simplification process for the two above equations. Please include detailed comments on the steps and assumptions made.
2. Please refer to page 4 of the Bradley Report which states "... the Postal Service will closely follow the explicit proposals the Commission put forth to resolve its concerns, without modifying those parts of Proposal Ten that were not of concern. For example, the Commission did not express any concerns about the operational database or the Postal Service's method of identifying a small number of out-of-bounds observations."³ Bradley Report at 4. Although the method for determining outliers (i.e., "out-of-bounds observations") was approved in Docket No. RM2020-2, please elaborate on the following questions to permit interested parties to conduct a more thorough analysis. Bradley Report at 4.
 - a. Please explain to what extent the outliers can be considered extreme.
 - i. If possible to determine, please provide the method used to evaluate these outliers' extremeness. Please explain any assumptions made throughout the process.
 - ii. If not possible to determine, please explain what is needed to quantify this measure.
 - b. Please explain the reason(s) (i.e., causality, random event, etc.) behind the presence of these reported outliers.
 - c. Please refer to Library Reference USPS-RM2022-8-1, July 7, 2022, folder "Directory 4 - Estimate 2022 Models and Variabilities," SAS program file "Identify Out of Bounds Obs.sas." Please also refer to page 18 of the Bradley Report which states "Table 4 presents the boundary limits for the various Zones of Tolerance across the EAS grades, along with the cutoff value for identifying any out-of-bounds offices. It also presents the number of out-of-bounds offices identified for each model." Bradley Report at 18.

³ See Docket No. RM2020-2, Order on Analytical Principles Used in Periodic Reporting (Proposal Ten), July 8, 2021 (Order No. 5932).

Please explain why outliers were not evaluated for the EAS 24 to 26 logit model.

3. Please refer to Response to CHIR No. 1, question 1.a. – 1.b. The Postal Service states “[t]he development of attributable costs for Postmasters thus directly parallels the development of attributable costs for purchased highway transportation.” Response to CHIR No. 1, question 1.a. – 1.b.
 - a. Please confirm this parallelism is solely based on the two respective attributable cost methodologies consisting of “a two-step process... [of which o]ne of the steps relates responses in cost to changes in a cost driver, and the other step relates responses in the cost driver to changes in volume.” *Id.*
 - i. If confirmed, please explain the rationale behind this parallelism. For instance, are the two products constructed in such a way to support this cost structure?
 - ii. If not confirmed, please elaborate on the rationale supporting this claim.
 - b. Please refer to page 33 of the Bradley Report which states “[i]n many parts of the established attributable costing methodology, such as mail processing or carrier delivery, the linkage of the cost driver to volume is based upon the assumption of proportionality. That is also the case for Postmasters, as the established methodology assumes that changes in WSCs are proportional to changes in volume.” Bradley Report at 33. Please confirm the assumed proportionality between changes in WSCs and changes in volume is one-to-one.
 - i. If confirmed, please explain the basis for this assumption.
 - ii. If not confirmed, please provide the assumed proportionality between changes in WSCs and changes in volume along with an explanation for this assumption.
 - c. Please refer to Response to CHIR No. 1, question 1.a. – 1.b., which states “the Postal Service decided to follow the approach taken in purchased highway transportation, in which the variability between costs and the cost

driver was updated and refined, while research on the feasibility of updating the variability between the cost driver and volume proceeded. This decision is further justified by the fact ... that a reduction in the assumed WSC-to-volume variability is unlikely to have a large impact on attributable Postmaster costs per piece.” Response to CHIR No. 1, question 1.a. – 1.b. If a one-to-one proportionality between changes in WSCs and changes in volume is not confirmed in response to question 3.b. above, please respond to the following two questions.

- i. Please explain the rationale behind making inferences from a reduction in WSC-to-volume variability but not making such an inference from an increase in WSC-to-volume variability.
 - ii. Please also provide a justification for the above quoted decision based on the impact of an increase in WSC-to-volume variability.
4. Please refer to Library Reference USPS-RM2022-8-1, July 7, 2022, folders “Directory 1 – MEDBPAC 2019” and “Directory 3 – Compare Datasets.” Please confirm the number of observations used to estimate the 2019 variabilities differ when comparing the Directory 1 programs to the Directory 3 program for all EAS Grade pairs except EAS-24 to EAS-26.
 - a. If confirmed, please explain why this discrepancy occurs.
 - b. If not confirmed, please state the number of observations used to estimate the 2019 variabilities in the Directory 1 programs and the Directory 3 program.

Respectfully submitted,

/s/ Madison Lichtenstein

Madison Lichtenstein
Public Representative

901 New York Avenue, N.W., Suite 200
Washington, DC 20268-0001
Phone: (202) 719-0742
Email: madison.lichtenstein@prc.gov